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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

RICHARD J. METZGER
VICE PRESIDENT - REGULATORY
AND PUBLIC POLICY

January 11, 2001

Dear Ms. Shetler

Thanks for meeting with us on Wednesday, January 10th, to discuss the Commission's pending order in CC Docket No. 99-68, Inter-Carrier Compensation for ISP-Bound Traffic. At that meeting we discussed the Focal January 9th recomputation of the ILEC spreadsheet, which purported to show future reciprocal compensation payments under various scenarios. We also discussed the CLECs' revised transition plan, filed that same day (the original CLEC transition proposal was filed back on December 28, 2000).

You asked at that meeting what the numbers would be under Scenario 1, which employs ratios of 12:1, 8:1, and 4:1, in our January 9th recomputation if the rates from the January 10th revised CLEC transition plan were used instead. We are responding to your question via this email ex parte (which is also being filed today with the Secretary's office), given the goal of moving quickly on this item.

The attached spreadsheet shows the results of applying the rates from the revised CLEC transition plan of January 10th to Scenario 1, and only Scenario 1, of the Focal January 9th spreadsheet. Per our discussion Wednesday, I have also used \$0.0018/MOU as the rate for both above and below ratio traffic for '02, rather than the \$0.0015/MOU used in our January 9th version. I have not yet succeeded in the making the typeface larger, but I'm working on that.

For your convenience, the amount of projected reciprocal compensation payments are as follows.

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Scenario 1 applying the first CLEC transition plan (from the January 9th Focal spreadsheet):

2000 payments: \$1.98B
2001 payments: \$1.32B
2002 payments: \$.64B
2003 payments: \$.32B

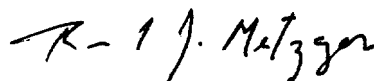
Scenario 1 applying the January 10th revised CLEC transition plan as discussed above (see attached revised spreadsheet):

2000 payments: \$1.98B
2001 payments: \$1.32B
2002 payments: \$.94B
2003 payments: \$.54B

Please note that the January 10th revised CLEC transition plan generates annual reductions in ILEC reciprocal compensation payments of 33% in '01, 28% in '02, and 44% in '03, an overall reduction of 73%. While the January 10th revised CLEC transition plan produces slightly less in overall reductions than the original CLEC plan of December 28th, as quantified in the January 9th Focal spreadsheet, it is, of course, a mandatory plan, not a voluntary plan.

We very much appreciate the effort being made to complete this matter in as timely a manner as possible. If I can answer any other questions, please don't hesitate to call me at my office (703-637-8778), or at home (703-237-1832), or on my mobile phone (202-256-6377) at any time whatsoever.

Best regards,

A handwritten signature in black ink, appearing to read "Dick Metzger". The signature is written in a cursive, slightly slanted style.

Dick Metzger

cc: ex parte filing with the Secretary's office
D. Attwood
G. Reynolds

J. Jackson
T. Preiss
R. McDonald
K. Brown
A. Gomez
J. Goldstein
R. Beynon
K. Dixon

Potential Cost of Reciprocal Compensation for Terminating Internet Traffic

Four Corrections are made to the ILECs' 12/22 original, and applied to the CLECs' proposed transition plan

Residential Internet Usage Forecasts	1999	2000	2001	2002	2003	Avg. Ann Growth
Total US households (000s)	103,900	105,000	106,400	107,700	109,000	1.25%
U.S. Online Households (000s)	43600	47300	51400	56900	62500	9.73%
% penetration	42%	45%	48%	53%	57%	
Avg Minutes of Access Per On-Line HH Per Day	63	67	72	77	83	
Avg Minutes of Access Per On-Line HH Per Day	22,888	24,529	26,288	28,173	30,288	
Total Internet Access Minutes -- Residential	997,916,800,000	1,160,221,700,000	1,351,203,200,000	1,603,043,700,000	1,893,000,000,000	7%
% Broadband (xDSL, Cable modems, wireless)	4%	12%	20%	29%	36%	
% Dial Up	96%	88%	80%	71%	64%	
Ratio Broadband/Dial-up Use/line	1.25	1.25	1.25	1.25	1.25	
Dial-up Minutes/Dial-up Household	22659	23809	25026	26253	28224	
Dial Up Internet Access Minutes	948,415,104,000	991,025,816,000	1,029,069,120,000	1,060,594,947,000	1,128,960,000,000	
% of Dial Up Internet Access Minutes that CLECs terminate	40%	50%	50%	50%	50%	
Dial Up Internet Access Minutes Terminated by CLECs	379,366,041,600	495,512,908,000	514,534,560,000	530,297,473,500	564,480,000,000	

1. Corrected Internet growth rate

2. Corrected for higher broadband use

3. Corrected CLEC response to caps

4. Above-ratio rates = .22, .18 and .15 cents/MOU, below-ratio rates = .275, .18 and .15 cent/MOU

ILEC Reciprocal Compensation Liability Scenarios -- With a Constant Recip Comp Rate of \$.004/Min.

Scenario 1: Cap That Produces Constant Recip Comp Payments

Cap on Terminating to Originating Minutes

Dial-Minutes that Qualify for Recip Comp Payments

Dial-Minutes that Qualify for reduced above-cap rate

Total Recip Comp Payments

	12:1	8:1	4:1
495,512,908,000	343,023,040,000	235,687,766,000	125,440,000,000
	171,511,520,000	294,609,707,500	439,040,000,000
\$1,982,051,632	\$ 1,320,638,704	\$ 954,535,452	\$ 535,994,561
Year-to-year percentage reduction in recip comp payments to CLECs	33%	28%	44%

Scenario 2:

Cap on Terminating to Originating Minutes

Dial-Minutes that Qualify for Recip Comp Payments

Dial-Minutes that Qualify for reduced above-cap rate

Total Recip Comp Payments

	6:1	4:1	2:1
495,512,908,000	171,511,520,000	117,843,883,000	62,720,000,000
	343,023,040,000	412,453,590,500	501,760,000,000
\$1,982,051,632	\$ 1,226,307,368	\$ 726,212,929	\$ 548,800,000
Year-to-year percentage reduction in recip comp payments to CLECs	38%	41%	24%

Scenario 3:

Cap on Terminating to Originating Minutes

Dial-Minutes that Qualify for Recip Comp Payments

Dial-Minutes that Qualify for reduced above-cap rate

Total Recip Comp Payments

	5:1	3:1	2:1
495,512,908,000	142,926,266,667	88,382,912,250	62,720,000,000
	371,608,293,333	441,914,561,250	501,760,000,000
\$1,982,051,632	\$ 1,210,585,479	\$ 563,441,066	\$ 470,400,000
Year-to-year percentage reduction in recip comp payments to CLECs	39%	53%	17%

Scenario 4:

Cap on Terminating to Originating Minutes

Dial-Minutes that Qualify for Recip Comp Payments

Dial-Minutes that Qualify for reduced above-cap rate

Total Recip Comp Payments

	4:1	2:1	Bill and Keep
495,512,908,000	114,341,013,333	58,921,941,500	0
	400,193,546,667	471,375,532,000	0
\$ 1,982,051,632	\$ 794,670,043	\$ 547,974,056	\$0
Year-to-year percentage reduction in recip comp payments to CLECs	60%	31%	100%

Scenario 5:

Cap on Terminating to Originating Minutes

Dial-Minutes that Qualify for Recip Comp Payments

Dial-Minutes that Qualify for reduced above-cap rate

Total Recip Comp Payments

	3:1	Bill and Keep	Bill and Keep
495,512,908,000	85,755,760,000	0	0
	428,778,800,000	530,297,473,500	564,480,000,000
\$ 1,982,051,632	\$ 1,179,141,700	\$0	\$0
Year-to-year percentage reduction in recip comp payments to CLECs	41%	100%	100%

Sources:

Total US Households (000s)

U.S. Online Households (000s)

Avg Minutes of Access Per On-Line HH Per Year

% Broadband (xDSL, Cable modems, wireless)

% of Dial Up Internet Access Minutes That CLECs Terminate

Sanford Bernstein & Co and McKinsey & Co, *Broadband!*, Jan. 2000

Sanford Bernstein & Co and McKinsey & Co, *Broadband!*, Jan. 2000

Nielsen 9/14/00 Press Release: Cahners 3/28/00; Thomas Weisel Partners, *Media Matrix's July Internet Usage Trends*, 8/23/00

Dean Witter Morgan Stanley, *The Broadband Report Reaping What You Sow: ROI in the Broadband Market*, May 2000

ALTS Press Release

For Comparable Forecasts See Also:

U.S. Online Households (000s)

% Broadband (xDSL, Cable modems, wireless)

Dean Witter Morgan Stanley, *The Broadband Report Reaping What You Sow: ROI in the Broadband Market*, May 2000

Hoad Breedlove Wesneski & Co., *The Last Race for the First Mile*, 8/2/00